ITEM E2.9
ANNUAL BUDGET 2013 - 2014
(O/MM/AA6/FINANCE/REPORTS 2013/37-13)
(SECTION 80 FINANCE 21-05-2013)

PURPOSE

The purpose of this report is to present the annual budget for the 2013-2014 Multi Term Revenue and Expenditure Framework (MTREF) to Council for approval.

BACKGROUND

Section 24(1-2) of the Municipal Finance Management Act (MFMA) requires that:

"1) The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.

(2) An annual budget—
- (a) must be approved before the start of the budget year;
- (b) is approved by the adoption by the council of a resolution referred to in section 17(3) (a) (i); and
- (c) must be approved together with the adoption of resolutions as may be necessary—
  - (i) imposing any municipal tax for the budget year;
  - (ii) setting any municipal tariffs for the budget year;
  - (iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;
  - (iv) approving any changes to the municipality's integrated development plan; and
  - (v) approving any changes to the municipality's budget-related policies."

DISCUSSION

Overview of the Budget Process

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2013 / 2014 Financial Year in August 2012. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements, during the first half of the financial year. Furthermore, engagements were held through IDP and Budget Steering Committees to discuss the IDP priorities and budget formulation and implementation. Inter-alia, the municipality considered National Treasury's budget circulars, which provided guidance and assumptions.

The above process resulted with the draft budget being tabled before Council at the end of March 2013, giving effect to the public participation process.

Budget assumptions

National Treasury issued MFMA/Budget Circulars 64, 66 and 67 indicating information relevant in the compilation of the 2013/14 budget. The following CPI's were used to project expenditure for the 2013 / 14 financial year as well as the two outer years:

Item	2013/14	2014/15	2015/16
Salaries	6.95%	6.5%	6.5%
General expenditure	5.5%	5.1%	4.9%

There has been an average increment of 7.3% on electricity bulk purchases and 9.82% on water bulk purchases. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2013/2014 financial year. Tariff increments are discussed below.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on repairs and maintenance
- Spending on non-priorities

One of the critical matters affecting the 2013/14 financial year budget is the review of the Local Government Equitable Share formula. The new formula is based on the 2011 Census outcome and not the 2001 Census which was previously used. The review of LGES formula was expected to address prior imbalances, considering the economic state of municipalities.

Division of Revenue Act 2013 has been issued, advising on the allocation of revenue raised nationally to other government spheres. It is outlined in the said Act, that the ELM's allocation for equitable share is estimated at R598 million, as opposed to the forecasted R640 million indicated in Division of Revenue Act, 2012 (DoRA, 2012), while Municipal Infrastructure Grant is estimated at R151 million as opposed to R162 million, as indicated in the previous year's DORA. The proposed allocation has a significant impact on the municipality's fiscal position and its commitment to meeting its set objectives.

It was based on the above that, the incremental approach was utilised to formulate the 2013/14 Draft Budget, based on the approved 2012/13 Adjustment Budget.
The increment in the Budget was mainly as a result of the following:

1. The proposed increment of 7.3% of electricity bulk tariffs by Eskom. Bulk electricity purchases in this proposed budget are R1, 404,956,054, which is an increase of R107, 369,467 on the adjustments budget amount of R1, 297,586,587.

2. The proposed increment of 9.82% proposed by the bulk water supplier, Rand Water. Bulk water purchases in this proposed budget are R479, 903,021, which is an increase of R76, 600,747 on the adjustments budget amount of R402, 302,274.

3. An increment of 6.95% (CPI of 5.7% plus 1.25%) on salaries as per the multi-year Salary and Wage Collective agreement and MFMA Circular 66 and 67. A provision for Councillors allowances on Grade 6 has been made.

4. General expenditure determined by considering inputs from various Departments and Clusters. Where submissions were not made, 2012 / 2013 Adjustment Budget amounts were adjusted with 5.5% (CPI for 2014) and used as budget figures for the 2013 /2014 financial year.

5. Depreciation is provided for, based on the guidelines of MFMA circular 58, which advices on the implication of re-valued asset as required by GRAP 17. The budget amount for depreciation and asset impairment after the revaluation is estimated at R505 million, while pre- revaluation would have been R155 million. The provision was correctly accounted for, within table SA1, of the accompanying schedule.

During the 2012/13 financial year, the gazette on determination of upper limits on councillors' remunerations indicated that the municipality has to make provision for additional benefits, i.e. tools of trade and other benefits. Due to funding availability, the provision of the proposed benefits was limited to affordability levels.

The adjustments budget for 2012 / 2013 was used as a base for 2013 / 2014 annual budget determination. The figures were adjusted with a CPI of 5.5% as per the guideline from the MFMA circular 66.

<u>Overview of alignment of the Budget with the IDP</u>

The following new strategic objectives as per the IDP are addressed by the budget:

1. Re-inventing our economy
2. Renewing our communities
3. Reviving a sustainable environment
4. Re-integrating our region
5. Releasing human potential
6. Good and sustainable financial governance
7. Vibrant democracy

--- A reconciliation of the IDP strategic objectives and the budget are indicated within the **Annexure (pages 409 - 458)**, budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

--- The following graphs are attached as **Annexure (pages 459 - 476)** with the budget tables to illustrate the relation of the budget with the IDP objectives:

Chart A14	-	IDP Strategic Objectives (Revenue)
Chart A15	-	IDP Strategic Objectives (Operational Expenditure)
Chart A16	-	IDP Strategic Objectives (Capital Expenditure)

<u>Measurable Performance Objectives and Indicators</u>

MFMA Circular 13, advises municipality to formulate the Service deliver and budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

<u>Funding of the budget</u>

In terms of section 18 of the MFMA,

"(1) An annual budget may only be funded from—

(a) realistically anticipated revenues to be collected;
(b) cash-backed accumulated funds from previous years' surpluses not committed

for other purposes; and
(c) borrowed funds, but only for the capital budget referred to in section 17(2).

(2) Revenue projections in the budget must be realistic, taking into account—

(a) projected revenue for the current year based on collection levels to date; and
(b) actual revenue collected in previous financial years."

Furthermore, National Treasury issued MFMA circular 64, which provides more guidance on revenue matters.

The provision for bad debts of R461,197,837 represents 14% of the total budgeted billings of R3,226, 040, 798 (Service charges of R3,477,813,065 less Revenue foregone of R251, 772, 248).

Grant funding comprise 19% of the budget. The effect on service delivery of the reduction in anticipated grants is discussed under "Budget assumptions' above. A
--- breakdown of all grant funding is made in supporting table SA18, of **Annexure (pages 409 - 458)**.

<u>Tariffs increases</u>

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. In the 2012/13 financial year, the municipality adopted the approach of applying the Inclining Block Tariff (IBT). Also, MFMA circular 58 advises municipalities to apply cost-reflective tariffs. This led to a massive change on the applied tariffs during 2012/13 financial year. The following tariff increments, based on the same tariff structure approved in 2012/2013, are proposed to be effected in the 2013 / 2014 financial year.

Assessment Rates	-	8.5% increase on general rate (Actual rates payable will be based on property valuation increase)
Electricity	-	10.07% (Eskom increase 7.3%)
Water	-	8.81 % (Rand water increase 9.82%)
Sanitation	-	5.5% (70% water consumption-residents)
	-	10% increase for business category
Refuse	-	Variable
Other income	-	10%

The municipality considered the status of refuse removal and a dire need for improvement there-of. It is upon the said status that, the current process was reviewed and enhancement to provide the efficient service is provided. This is informed by the introduction of 'wheely bins" within the CBD's and surrounding suburbs (residential). The proposed tariff structure for refuse removal, mainly for the specified areas, has considered the related cost and overheads in this regard, while other un-affected areas' tariffs are increased by 10%.

The electricity tariff application is still subject to approval by Eskom. The number of
--- households receiving services is indicated in Table A10, of **Annexure (pages 409 - 458)**.

A Tariff Policy and Property Rates Policy indicating the basis for the determination of tariffs and are also hereby presented for approval.

The following budget related policies were approved and after review, no amendments are made:

- Credit Control and Debt Collection Policy
- Cash Management and Investment Policy
- Borrowing Policy
- Policy on the Provision of Free Basic Services
- Property Rates By-laws

The following budget related policies are being reviewed and will be presented for approval:

- Supply Chain Management Policy
- Assets Management Policy

Revenue

Proposed revenue for the 2013 / 2014 financial year is as follows:

Item	2012/2013 (R)	2013/2014 (R)	% in proportion to Budget
Property rates	396, 524, 977	469, 468, 332	10%
Service charges - electricity revenue	1, 702, 733, 870	1, 874, 199, 162	42%
Service charges - water revenue	695, 142, 776	756, 384, 854	17%
Service charges - sanitation revenue	202, 158, 698	222, 374, 568	5%
Service charges - refuse revenue	128, 648, 140	155, 386, 140	3%
Rental of facilities and equipment	12, 650, 083	13, 915, 091	0%
Interest earned - external investments	7, 790, 202	8, 569, 222	0%
Interest earned - outstanding debtors	23, 370, 650	25, 707, 714	1%
Fines	32, 382, 253	35, 007, 945	1%
Licences and permits	11, 000	12, 100	0%
Transfers recognised	913, 483, 155	866, 951, 938	19%
Other revenue	195, 908, 591	94, 549, 459	2%
TOTAL	**4, 310, 804, 395**	**4, 522,526,526**	**100%**

--- Detailed information including the 2014/2015 and 2015/2016 outer years is also reflected, within **Annexure (pages 409 - 458)**, by Table A4 of the budget tables as well as the supporting tables SA1 and SA25 (breakdown per month). Table A2 gives breakdown per General Finance Statistics (GFS) classification and Table A3 gives the breakdown per cluster.

The largest revenue items are electricity at 42%, grant income at 19% and water sales at 17%. The three items generate 76% of the revenue of the municipality.

--- The following graphs are attached as an **Annexure (pages 409 - 458)** with the tables to illustrate the contributions of different income items:

Chart A1 - Revenue by Municipal Vote Classification
Chart A2 - Revenue by Source (Minor)
Chart A3 - Revenue by Standard Classification
Chart A4 - Revenue by Source (Minor)
Chart A5a - Revenue by Source (Major)

Expenditure

Proposed expenditure for the financial year is as follows:

Item	2012/2013 (R)	2013/2014 (R)	% in proportion to budget
Employee related costs	752,389,734	827, 885, 986	20%
Remuneration of councillors	37,683,390	41, 851, 729	1%
Debt impairment	422,182,765	461, 197, 837	11%
Depreciation & asset impairment	350,001,996	206, 187, 810	3%
Finance charges	11,056,631	11, 342, 570	0%
Bulk purchases – electricity	1,297,586,587	1, 404, 956, 054	31%
Bulk purchases - water	403,302,274	479, 903, 021	11%
Contracted services	78,899,017	100, 948, 889	2%
General expenditure	611,376,994	662, 148, 841	15%
CAPEX	346,325,007	326, 103, 789	7%
Total Expenditure	**4, 310, 804, 395**	**4, 522, 526, 526**	

--- Detailed information including the 2014/2015 and 2015/2016 outer years is also reflected, within **Annexure (pages 409 - 458)**, by Table A4 of the budget tables as well as the supporting tables SA1 and SA25 (breakdown per month). Table A2 gives breakdown per General Finance Statistics (GFS) classification and Table A3 gives the breakdown per cluster.

The largest expenditure items are bulk electricity purchase at 31%, employee related costs at 19% and bulk water purchase at 11%. The three items comprise 61% of the expenditure of the municipality.

--- The following graphs are attached as **Annexure (pages 459 - 476)** with the tables to illustrate the composition of different expenditure items:

Chart A2a - Expenditure by Municipal Vote
Chart A4 - Expenditure by Standard Classification
Chart A7 - Expenditure by Type (Major)
Chart A8 - Expenditure by Type (Minor)

Capital Budget

The Capital Budget amounts to R326, 103,789 and is funded as follows:

Department of Energy	R 13, 000, 000	4%
Municipal Infrastructure Grant	R 146, 432, 652	45%
Library Grant	R 700, 000	0%
Social Infrastructure Grant	R 21, 000, 000	6%

Total Grant Funded	***R 181, 132, 652***	***55%***
Emfuleni L.M. (own funded)	*R 83, 500, 000*	*26%*
Counter-funding on MIG	*R 61, 471, 137*	*19%*
TOTAL	**R 326, 103, 789**	**100.0%**

The capital list for the 2013 / 2014 financial year amounting to R326, 103,789 is attached as per supporting table SA36. Further breakdown of the Capital budget per
--- vote and department is given in Table A5, *of* **Annexure (pages 409 - 458)**.

<u>Cash flow effect of the budget</u>

The cash flow impact of the proposed 2013 / 2014 Annual Budget is as follows:

Item	**Amount (R)**
Income	
Service charges at 86% (R3, 477,813,056 * 86%)	2, 990, 919, 228
Interest earned on service debtors (R25, 707, 714 * 86%)	22, 108, 634
Grants received	866, 951, 938
Other income	152, 053, 817
Total cash receipts	**4, 032, 033, 617**
Expenditure	
Personnel costs	869, 737,715
Finance charges	11,342,570
Bulk purchases	1, 884, 859, 075
Other expenditure	763,097,731
Capital Expenditure	326, 103, 789
Total cash payments	**3, 855, 140, 880**
Total cash surplus	***176, 892, 737***

Budgeted cash flows are indicated in Table A7. A breakdown per month of the projected cash flow is recorded in supporting table SA30. A provision for doubtful debts of 14% of billings has been made as reflected under ‘funding of the budget’ above.

--- The following graphs are attached as **Annexure (pages 459 - 476)** with the tables to illustrate the composition of different expenditure items:

Chart A9 - Capital Expenditure by Municipal Vote
Chart A10 - Capital Expenditure by Municipal Vote (Minor)
Chart A11 - Capital Expenditure by Standard Classification
Chart A12 - Capital Expenditure by Municipal Vote (Major Trend)
Chart A13 - Capital Funding by Source

--- **<u>ANNEXURES</u>**

Annexure (pages 409 - 458) - Multi Term Revenue and Expenditure Framework (MTREF) budget as per Municipal Budget and Reporting Regulations
Annexure (pages 459 - 476) - Budgetary graphs
Annexure (pages 500 - 513) - High-level MTREF Budget
Annexure (pages 514 - 623) (Under Separate Cover) - Tariff Booklet

Annexure (pages 624 - 677) - Property rates policy
Annexure (pages 678 - 697) - Tariff policy

RECOMMENDED THAT

1. Council approves the 2013/2014 MTREF budget of R4,522, 526, 526, which comprises of the Operational Expenditure of R4, 196, 422, 737 and Capital Expenditure of R326, 103, 789, for the 2013/14 financial year as contained in the following tables:

   a) Table A1 - Budget Summary;
   b) Table A2 - Budgeted Financial Performance (Revenue and expenditure by standard classification);
   c) Table A3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
   d) Table A4 - Budgeted Financial Performance (Revenue and Expenditure);
   e) Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding;
   f) Table A6 - Budgeted Financial Position;
   g) Table A7- Budgeted Cash Flows;
   h) Table A8 - Cash backed reserves / accumulated surplus reconciliation; and
   i) Table A9 - Asset management; and
   j) Table A10 – Basic Service Delivery Measurement

2. Council approves the supporting budget tables SA1 to SA36 containing additional information on the proposed budget.

3. Council approves the revised property rates policy for the 2013/2014 financial year:

4. Council approves the tariffs policy drafted in line with section 74 of the Local Government: Municipal Systems Act, No. 32 of 2000, as amended and that the tariff policy also be promulgated as by-laws.

5. Council approves the attached rates, levies, taxes and other tariffs for the 2013/ 2014 Financial Year and that the determination of rate levies be promulgated as required in terms of Section 14(2) of the Local Government: Municipal Property Rates Act, No 6 of 2004.

6. Council takes note that the electricity tariffs are subject to approval by the electricity regulatory body (NERSA), and that the approved tariffs be submitted to Council.

7. Council should note that the following policies which were previously approved have after review not been amended and are applicable for the 2013/2014 financial year:

   - Credit Control and Debt Collection Policy
   - Cash Management and Investment Policy
   - Borrowing Policy
   - Policy on the Provision of Free Basic Services
   - Property Rates By-laws